

Debtors' Statement of Disputed Issues

EXHIBIT E



23 August 2004

Dear Paul,

Thank you for your letter dated August 4, 2004, which has been circulated to our senior management. During our phone calls I have stated that we have involved the whole organization of Celestica behind the Matchbox program and I just wish to reconfirm our full commitment to make this program a success. Celestica has taken on board all the comments you made in your recent letter and we have introduced some major changes to our procedures which we believe will prevent these issues from reoccurring. I have outlined some of the key points in my note below and your team should see these improvements on the Blue-sky program.

- **MVA delta**

In addressing the pricing issue you have seen in Matchbox and in particular the estimated 20%MVA shown in the first quote, we should explain the following. At the initial stages of the quote we had not involved the site to establish a manufacturing cost, basically because at the time all that existed was a designer's impression of the unit. No detailed plans or manufacturing documentation existed. As we now know this was wrong and on reflection, we should not have made this MVA assumption. The improvement action going forward is for the design group to provide basic information and the site to be engaged during the design development and quote process.

- **Tooling NRE**

On the estimates provided with the quote again the designers, based on previous experience, used tooling estimates. The initial design for the plastics had assumed only two (2) pieces and the quote of \$50k was based on this assumption. During the subsequent design and with additional information being available the unit that was estimated with two (2) pieces developed into a unit with thirteen (13) plastic parts. These additional parts drove up the material and tooling costs. Although the increased tooling cost had been communicated during the weekly reviews, the designers, driving to meet the completion date, had not stopped to consider the impact to the final manufacturing cost. The corrective action implemented is to have regular reviews with the manufacturing site to assess the cost implication of manufacturing the product. The customer will be kept more informed of major cost movements and not, as in Matchbox, informed when the design was near completion.

- **NRE breakdown**

I have attached in appendix 1 all the NRE charges identified to produce the unit. This attachment should help explain what had been estimated and the current status.

- **Material cost increase**

On material, I know that during the weekly calls with the designers you were kept abreast of the movements and explanations were also given as to why the increases were necessary. Several bridge analyses were provided, which I believe you and your team have accepted. However the need to reflect these changes in the final unit cost did not take place until the design was near completion and as stated above the improvement action implemented is to keep the customer informed on the affect this may have on the unit cost.

- **Manufacturing cost**

In my letter of August 2 I detailed out the cost of manufacture from our Monterey facility. The detailed included all the key cost drivers and our normal profit expectation of 5.5%. The MVA against BoM was significantly higher than expected and was a result of several key factors.

- The panelization of the boards was based on a two up due to the thinness of the PCB, although with additional tooling for SMT pallets, the site was able to process two sets of panels.
- A fine placement machine was required for one component which drove our line capital investment to \$4.7M
- The test solution developed was both timely and required significant capital investment of \$400K for functional test equipment.
- The back end assembly process is more involved and is taking more production stages.
- Material costs being shared with Delphi from our designers had no allowance included for inbound freight. The cost associated with inbound freight adds approximately 1.8% on to the material cost.

On the first point above, recent design changes have resulted in the two PCBs having different thickness. Initially the two cards were being processed as one panel, we are now having to make two separate passes. The site is currently evaluating the implication of this design change. The site is also working with both the designers and several different departments within Celestica evaluating creative ways to both improve the manufacturing process and ultimately reduce the cost. As test is playing a major cost in the process, our engineers have been in discussion with the Delphi team. Although currently, there is no opportunity to change the actual Celestica test strategy, the engineers will continue to evaluate the test time to drive for the ultimate solution which will not compromise the end quality seen by the customer. All savings realized from all of the above will be passed over in full to Delphi.

- **Matchbox pricing**

I have conducted a review with Celestica senior management resulting in a fresh offer for the manufacturing of Matchbox of \$69.88. This price is a standalone unit cost without any amortization included. The material cost being used is \$40.73 standard material and \$16.94 for the headset delivered to Monterey. On the basis that we were to package the Matchbox and Echo programs together, Celestica would further reduce the Matchbox program to \$67.95.

- **Production Schedule**

In respect to the actual program we have conducted a full review with the design team, supply chain team and the manufacturing site in Monterey, which resulted in a number of gaps being identified. Appropriate steps have been taken to close these items, including potential material issues, which are being worked by a dedicated team lead by Dan Pilling. Dan has staff both at the site and in Toronto working closure. With respect to the release schedules received in Monterey, based on material being available the current indication suggest that we can deliver 6000 units by October 29 and 12000 each week thereafter. This is

primary based on the plastic supplier delivery 20K of plastics on or before October 20. Celestica has committed order coverage of over \$3M to support this program. Non cancelable material including the dedicated headset is currently over \$1M

- **Material status**

DELPHI BOM RISK ANALYSIS ( 8/24)		
	Qty	Status
Confirm / Expedite	19	New orders Owner - CMX
Design to be finalized	13	Celestica Engineering team
Vendor meet required date	72	CMX to follow up
Part set up	2	CM Toronto team
Part to be escalated by site	4	CMX / Toronto CM team

- **Front end loading**

The increase at the front of the program, which now calls for 113K in the first 9 weeks of production, has created some additional issues for Celestica. Our initial capacity planning was for 150K over 12 months. The new release has necessitated our test engineers in particular to review the overall capacity of the test equipment. From an analysis recently completed additional dedicated test fixtures are required for functional test, resulting in an investment of approximately \$48K. Unfortunately this additional equipment is not required for the ongoing forecasted volume of 10K per month, and being unique, will require Delphi authorization.

- **Program Risks**

Out with material issues being worked by Celestica there are a number of key decisions awaiting Delphi feedback. Independently or collectively they could create a delay in the program. I believe that we have raised these points during the weekly calls. Celestica would appreciate your comments and reassure that they will not impact the program launch.

1. Potential tolerance issue with the mating of the Roady 2 to the Matchbox unit. Celestica has raised concerns and requested guidance from Delphi on the connector positioning and tolerance specification. Celestica believes that this problem may result in field problems.
2. Battery life estimate is 3.5 hours versus Delphi spec of 4 hours (revised down from 5 hours). Celestica believes that the power consumption of approximately 2 watts required to drive the Roady2 versus Matchbox's milliwatt consumption is the reason for the reduced battery life.
3. The new request to consider an alternative finish for the plastic has been estimated by the supplier to add a further two weeks to his schedule and further delay the production start date in Monterey. Celestica needs to understand if this is an actual requirement or an option.
4. As the carry case has now been removed from the bill of material, Celestica is seeking clarification on the environmental test specification for the unit.

I believe a potential issue regarding the color resin has been closed with the recent information from GE.

I hope that the above explanation helps you better understand the cost delta between the initial estimate and the actual costs required to assemble and test the unit. We also trust you will view the revised offer from Celestica to be fair and acceptable.

## **Echo**

- **Proposal**

Packaging Matchbox and the Echo Transmitter and Receiver together would give a combined price of \$56.95 for the transmitter and the receiver. The revised cost reflects the Delphi supplied BOM cost of \$41.28. As we have previously stated in our quotes, we have assumed that the advised material cost includes packing and is a delivered price to Monterey, and we would like to discuss the functional test strategy with your engineers and confirm NRE costs.

Note: The price is a function of the material cost and is subject to change as material costs change

- **Echo Manufacturing Plan**

The intended Celestica location for this build is Monterrey, Mexico. Based on Delphi's instruction, Monterrey will use all available resources to deliver 10,000 units by the third week of November 2004 and work towards ramping to annual requirements of 150K per year. (DV and PV builds are not required from Celestica). Celestica's Monterrey Team believes that they can meet Delphi's required delivery schedule if the authority to proceed is given no later than Monday – August 30, 2004.

- **Supply Chain - Material Lead Times**

With respect to Echo we have had extensive discussions with the supply base over the past 48 hours to improve current lead times to within 10 weeks for a volume of 10,000 units. We have received responses on all components of the Transmitter and Receiver BOM with the exception of the following:

- RFM - Sawfilter
- 7V Power Supply
- Microcontroller
- Output Cable
- Blue LED

Note: We hope to give you a follow up response on these parts as soon as possible

The response we have received on the majority parts has been favorable and achievable within the 10-week timeframe. As of today, Suppliers have provided their best estimates on lead-time and would be in a position to commit to these lead-times once PO's have been placed. Once we have been able to place firm orders, we are confident that we can expedite even further. In parallel, we have checked on the availability of these parts within the Distribution channel and confirm that as of Aug 24<sup>th</sup>, these parts are in stock.

It is important to note that there are certain dependencies/risks due to the accelerated time frame and stated below are some recommendations that we will put in place to mitigate them.

- **DEPENDENCIES/RISKS:**

1. The mechanical (plastics) parts have currently a greater than 10 week lead-time.

**Mitigation Strategy:**

We can run the first units off a soft tool kit, which would comfortably be able to accommodate the Christmas rush requirements of 10K units. (See Appendix 2).

2. Lead-times on a component may actually be over 10 weeks. (Items that are potential risks could be ones identified above)

Mitigation Strategy:

(a) We have confirmed that these parts are available in Distribution today. The premium associated with procuring from the Distribution channel would be approximately 20%.

(b) Upon engagement, Celestica can look also at alternate vendors for specific parts that may be potential issues. Of course, the vendors would have to be approved by Delphi. (We have already begun this exercise for some mechanical, as we believe our preferred vendors can expedite)

3. The November delivery is conditional on having agreement to place firm orders with the supply base, and commissioning the development of the dedicated test solution no later than August 30.

- **Advantages of combining Matchbox and Echo**

A distinct advantage for Delphi to consider Celestica for the manufacture of the Echo product is that the similarities of the Matchbox and Echo products have in both manufacture and test requirements. Combining these programs actually reduces some of the capital investments required. The ability to use common material and suppliers will result in improved quality and supplier focus, and also quicker changeovers during production with improved efficiencies and operator learning.

Celestica would also make a commitment to review the actual cost of manufacture and materials after the first four months of production and revisit the sell price to Delphi based on any shared savings that would be identified during this period of time.

We trust you find the improved offer for both Matchbox and Echo to be fair and acceptable. We look forward to your review and direction on both of these Delphi programs.

Thank you for your consideration and cooperation.

Regards,

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## Appendix 1

### Matchbox Tooling NRE

	Original estimate	Current
Plastics	\$75,000 (two pieces)	\$321,500 (now 13 parts, delivery date 15/10)
Regulatory testing	\$15,000	\$15,000
Design	\$177,000	\$177,000
Others	\$40,000	
Production		
ICT fixture		\$12,124 (each)
Software development		\$13,481 (one off charge)
FVT Fixtures		\$48,000
Software development		\$133,900
Solder Screen		\$7,650
Jigs and sets up		\$47,370
Total	\$307,000	\$776,025

The increase to \$776,025 from the previous \$655,800 is due to the plastic supplier requesting an additional premium to have all parts available for the start of production date of October 15. Celestica propose to pay 50% of this premium, which gives a total NRE cost of \$715,912 of which 50% would be amortized over the first 150,000 units or twelve months, whichever comes first. The amortization charge per unit based on this equals \$2.38

## **Appendix 2**

### **Soft tooling Option for Echo**

#### **Receiver:**

Most parts appear to be straight pull with estimates per tool cost of \$8,000-10,000 per and lead times of 3- 4 weeks.

Parts would include:

DK218650

DK218651

DK219366

DK219363

DK219364

There is likely to be some opportunity to further reduce these tool costs by creating family tools

For example

DK218650 & DK218651

DK219363 & DK219364

#### **Transmitter**

Side action required, estimated per tool cost of \$10,000 - 12,000 per and lead-times of 3- 4 weeks. It may be possible family tool on these two parts

DK218623

DK218622

Deep draw part (difficult ejection) \$10,000-12,000 per and lead times of 4-5 weeks

DK218627

Possible multiple actions, estimated per tool cost of \$10,000-12,000 per and lead times of 4- 5 weeks

DK218631